

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SS-15 PM-05 SP-02 EB-08 INR-10
SSO-00 INRE-00 L-03 /056 W
-----083032 061105Z /11
O 060430Z JUN 78
FM AMEMBASSY ANKARA
TO SECSTATE WASHDC IMMEDIATE 2198

C O N F I D E N T I A L SECTION 1 OF 2 ANKARA 4243

STADIS////////////////////////////////

E. O. 11652: GDS
TAGS: EFIN, EIND, ENRG, TU
SUBJECT: ENTRY OF PRIME MINISTER AND MINISTER OF FINANCE
INTO MOBIL DISPUTE GIVES ENCOURAGEMENT TO COMPANY

REF: STATE 122096##

1. SUMMARY. AT EMBASSY'S PROMPTING, MOBIL HAS SHIFTED ITS EFFORTS TO RESOLVE PROBLEMS ASSOCIATED WITH ITS JOINT OPERATION OF ATAS REFINERY AWAY FROM ENERGY MINISTRY TO FINANCE MINISTRY. MOBIL HAS MET WITH EAGER RESPONSE FROM TURKISH TREASURY TO SUGGESTION THAT COMPANY WOULD BE WILLING TO CONSIDER RESCHEDULING OF ARREARS DUE FOR PAST OIL DELIVERIES, DESPITE MOBIL'S INSISTENCE THAT ITS TURKISH LIRA PROBLEMS MUST BE RESOLVED SIMULTANEOUSLY. MOBIL INFORMED EMBASSY IN STRICTEST CONFIDENCE THAT IT HOPED TO BE ABLE TO PRESENT TO PRIME MINISTER ECEVIT IN NEW YORK A SPECIFIC PROPOSAL FOR A \$45-MILLION CREDIT AND A \$65 MILLION REFINANCING PACKAGE.

2. MOBIL/TURK PRESIDENT MARC CASANOVA HAS REACHED ECEVIT THROUGH INTERMEDIARY, NEHZI NEYZI, WHO IS CLOSE AND LONG-TIME FRIEND OF PRIME MINISTER. NEYZI CLAIMS THAT ECEVIT WELCOMES MEETING WITH MOBIL OFFICIALS IN NEW YORK AND THAT PRIME MINISTER HAS TOLD ENERGY MINISTER BAYKAL TO TAKE NO DECISION IN PRIME
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MINISTER'S ABSENCE ABOUT CANCELLING MOBILE'S REFINERY PERMIT. NEYZI IS CONFIDENT BAYKAL WILL NOT ACT EVEN THOUGH MINISTER NOTIFIED ATAS MAY 31 THAT ANY LOWERING OF REFINERY OPERATION BELOW CAPACITY AFTER MAY 28 WILL RESULT IN PERMIT BEING CANCELLED WITHOUT NOTICE. NEYZI BELIEVES THAT BAYKAL COULD NOT DO MORE THAN RECOMMEND CANCELLATION. HE INTERPRETS PROBLEMS OF FOREIGN OIL COMPANIES AT ATAS AS STEMMING FROM EFFORT BY BAYKAL

TO INCREASE SUPPORT FOR HIMSELF IN REPUBLIC PEOPLE'S PARTY;
AFFAIR, HE SAYS, HAS ACTUALLY DIMINISHED BAYKAL'S PRESTIGE
IN PARTY.

3. EMBASSY IS ENCOURAGED BY ACTIVE PARTICIPATION OF FINANCE
MINISTRY IN THIS MATTER. FINANCE MINISTRY MUST RESOLVE
COMMERCIAL ARREARS, INCLUDING THOSE WITH MOBIL,
AS CONDITION OF IMF STANDBY AGREEMENT. FINANCE OFFICIALS
ARE AWARE THAT MISHANDLING OF ATAS AFFAIR COULD RETARD
RESTORATION OF CONFIDENCE OF INTERNATIONAL FINANCIAL COMMUNITY
IN TURKEY, A PROSPECT THEY KNOW THAT TURKEY CANNOT AFFORD.
END SUMMARY

4. THERE ARE INDICATIONS THAT MOBIL OIL/TURKEY MAY NOW BE TALKING
DIRECTLY OR INDIRECTLY WITH PEOPLE IN THE TURKISH GOVERNMENT WHO,
UNLIKE THOSE IN THE MINISTRY OF ENERGY, HAVE A DEEP INTEREST IN
RESOLVING MOBIL'S OPERATING DIFFICULTIES AT THE ATAS REFINERY.
IN MEETING WITH ECON/COM COUNSELOR JUNE 1, MARC CASANOVA,
PRESIDENT, MOBIL COMPANIES IN TURKEY, REVIEWED LATEST DEVELOPMENTS
IN THIS MATTER AND PROVIDED IN STRICTEST REPEAT STRICTEST
CONFIDENCE MOBIL'S STRATEGY FOR NEGOTIATING A SOLUTION TO
ITS PROBLEMS WITH TURKISH GOVERNMENT.

5. THE DEVELOPMENTS SPRING FROM TWO SOURCES OF ACTIVITY ON
PART OF MOBIL: A SWITCH IN THE THRUST OF ITS REPRESENTATIONS TO THE
TURKISH GOVERNMENT FROM THE MINISTRY OF ENERGY TO THE TREASURY
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AT THE ENCOURAGEMENT OF THE EMBASSY, AND USE OF A CLOSE FRIEND
OF PRIME MINISTER ECEVIT TO BRING MOBIL'S VIEWS DIRECTLY TO THE
ATTENTION OF THE PRIME MINISTER.

ACTIVE INVOLVEMENT OF FINANCE MINISTRY.

6. SINCE MAY 12, EMBASSY HAS STRONGLY URGED MOBIL TO DIRECT ITS
EFFORTS TO GOVERNMENT FINANCIAL OFFICIALS, SINCE THEY ARE OBLIGED
UNDER TERMS OF THE TURKISH STANDBY AGREEMENT WITH THE IMF TO
PRESENT A SCHEDULE ACCEPTABLE TO THE FUND FOR THE ELIMINATION
OF ARREARS BEFORE NOVEMBER 1 AND TO PREVENT THE INTRODUCTION OF
NEW ARREARS IN RESPECT OF PAYMENTS AND TRANSFERS FOR CURRENT
TRANSACTIONS. EMBASSY SUGGESTED THAT MOBIL COULD CAPTURE
ATTENTION OF FINANCE OFFICIALS BY DANGLING PROSPECT OF COMPANY'S
RESCHEDULING \$110 MILLION OWED TO IT FOR PAST DELIVERIES OF
CRUDE OIL.

7. MOBIL HAD, IN FACT, GLANCED AT POSSIBILITY OF RESCHEDUL-
ING WITH ENERGY MINISTER BAYKAL AND PETROLEUM ADMINISTRATION
IN ASSOCIATION WITH ITS REQUESTS FOR SOLUTION OF ITS SEVERAL
OTHER PROBLEMS. BAYKAL HAD BEEN IN TOUCH WITH CASANOVA THREE
TIMES THROUGH INTERMEDIARIES TO SAY THAT HE WOULD BE WILLING TO

DISCUSS MOBIL'S PROBLEMS ON CONDITION THAT THE COMPANY AGREE TO REFINANCE THE DEBT DUE IT FROM THE TURKISH GOVERNMENT. CASANOVA COULD NOT ACCEPT THIS CONDITIONALITY WHICH DID NOT COMMIT BAYKAL TO A SATISFACTORY SOLUTION OF MOBIL'S PROBLEMS.

8. WITH CONCURRENCE OF CASANOVA, ECON/COM COUNSELOR CALLED ON AYSEL OYMEN, DIRECTOR GENERAL OF THE TREASURY FOR FOREIGN FINANCING, MAY 25, TO INDICATE THAT MOBIL WOULD BE PREPARED TO DISCUSS RESCHEDULING OF THE COMMERCIAL DEBT OVERDUE TO IT. SHE OUTLINED MOBIL'S PROBLEMS, WHICH OYMEN HAD NOT PREVIOUSLY BEEN ACQUAINTED WITH, AND SUGGESTED THAT GOT MIGHT WISH TO CONSIDER DELAYING BEYOND MAY 28 ANY DECISION TO REVOKE MOBIL'S REFINERY PERMIT. OYMEN WAS QUICK TO APPRECIATE FACT THAT MOBIL'S INABILITY TO OBTAIN BOTH TURKISH LIRA AND DOLLARS FROM GOT MADE IT CONFIDENTIAL

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IMPOSSIBLE FOR THE COMPANY TO OPERATE ITS SHARE OF ATAS AT CAPACITY AS ENERGY MINISTER WAS DEMANDING. SHE ALSO EXPRESSED TOTAL AGREEMENT TO SUGGESTION THAT GOT'S DECISION WITH REGARD TO MOBIL WILL INFLUENCE ATTITUDES OF POTENTIAL FOREIGN CREDITORS AND INVESTORS TOWARD TURKEY. (OYMEN AGREED THAT FOREIGN INVESTMENT WAS A DESIRABLE SOURCE OF LONG-TERM DEVELOPMENT CAPITAL FOR TURKEY.)

9. OYMEN IMMEDIATELY TELEPHONED VURAL GUCSAVAS, SECRETARY GENERAL OF THE TREASURY, ABOUT COUNSELOR'S VISIT. GUCSAVAS ASKED THAT CASANOVA MAKE AN APPOINTMENT WITH HIM RIGHT AWAY. ACCORDING TO OYMEN, GUCSAVAS SAID THAT MOBIL'S PROBLEMS WOULD BE SOLVED.

10. CASANOVA WAITED UNTIL AFTER MAY 28 TO MAKE THE APPOINTMENT LEST HE APPEAR TO BE REACTING TO BAYKAL'S ULTIMATUM THAT IF REFINERY WERE NOT AT CAPACITY BY THAT DATE, REFINERY CERTIFICATE WOULD BE CANCELLED. BY THE TIME CASANOVA CALLED, GUCSAVAS HAD BEEN DESIGNATED TO ACCOMPANY ECEVIT TO THE UNITED STATES. INSTEAD, CASANOVA CALLED ON OYMEN JUNE 1 AND INFORMED COUNSELOR THAT DAY WHAT HAD OCCURRED.

11. MRS. OYMEN INDICATED THAT SHE HAD TOLD FINANCE MINISTER MUEZZINOGLU OF ECON/COM COUNSELOR'S VISIT AND THAT HE HAD EMPOWERED HER TO HANDLE ALL ASPECTS OF THE MOBIL CASE. SHE SAID THAT SHE WAS PREPARED TO DEVOTE HERSELF TO THE MATTER IMMEDIATELY. SHE HOPED TO RESOLVE ALL OF MOBIL'S DIFFICULTIES WITHIN A WEEK. SHE REALIZED THAT MOBIL WOULD NOT OPERATE WITHOUT AN IMMEDIATE DECISION WITH REGARD TO THE AVAILABILITY OF BOTH LIRAS AND DOLLARS AND THAT IT WOULD NEED TO RECEIVE A HIGHER PRICE FOR ITS CRUDE.

NOTE BY OC/T: ##REFERENCE IN ERROR.
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ACTION EUR-12

INFO OCT-01 ISO-00 PM-05 SP-02 EB-08 INR-10 SSO-00

INRE-00 L-03 SS-15 /056 W

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FM AMEMBASSY ANKARA

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12. OYMEN WAS EAGER TO PIN CASANOVA DOWN ON RESCHEDULING. SHE ASKED WHEN MOBIL WOULD BE PREPARED TO MAKE A SPECIFIC PROPOSAL. CASANOVA SAID THAT A MOBIL OFFICIAL FROM NEW YORK COULD BE IN ANKARA IN A WEEK TO PRESENT A CONCRETE OFFER.

13. CASANOVA DID NOT TELL OYMEN THAT IF MOBIL OFFICIALS SUCCEEDED IN MEETING WITH PRIME MINISTER ECEVIT IN NEW YORK, AS THEY HOPED TO DO, THEY WOULD OFFER HIM A RESCHEDULING PROPOSAL IF HE APPEARED SYMPATHETIC. MOBIL PLANNED TO PROPOSE A REVOLVING CREDIT OF \$45 MILLION, PROVIDED THAT NEW PURCHASES ARE PAID FOR IN CASH. (THE AVERAGE MONTHLY COST OF IMPORTS FROM MOBIL IS \$15 MILLION; MOBIL ALREADY ALLOWS THE TURKS A 90-DAY REPAYMENT PERIOD, THE EQUIVALENT OF A ROLLING \$45-MILLION CREDIT.) THE COMPANY WOULD ALSO AGREE TO ARRANGE SOME FORM OF RESCHEDULING OF THE REMAINING \$65 MILLION DUE TO IT. MOBIL WOULD, IN EFFECT, BE REDUCING THE \$110 MILLION CURRENTLY OWED THE GOT TO \$45 MILLION. MOBIL IS UNWILLING TO ENLARGE THE AMOUNT BEYOND \$110 MILLION. CASANOVA EMPHASIZED REPEATEDLY THAT HE PROVIDED THESE DETAILS IN STRICTEST CONFIDENCE AND WOULD NOT WANT THEM TO REACH THE TURKS BEFORE MOBIL ITSELF HAD STATED THEM, IF POSSIBLE, TO ECEVIT.

14. IN THE SECOND PRONG OF ITS EFFORT TO RESOLVE MOBIL'S

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PROBLEMS, CASANOVA HAS OBTAINED THE ASSISTANCE OF A CLOSE FRIEND AND XMOVVXM ROBERT COLLEGE CLASSMATE OF ECEVIT, NEZIH NEYZI. REYZI, WHO WAS APPOINTED BY ECEVIT TO HIS PRESENT POSITION AS DIRECTOR GENERAL OF THE TURKISH MARITIME BANK, HAS TALKED TO ECEVIT ABOUT THE MOBIL CASE. ACCORDING TO NEYZI, ECEVIT CALLED ENERGY MINISTER DENIZ BAYKAL FROM BONN IN MAY, GIVING HIM FIRM INSTRUCTIONS TO TAKE NO ACTION WITH REGARD TO CANCELLING REFINERY PERMITS OF THE ATAS OPERATORS BP, SHELL, AND MARMARA PETROL, AS WELL AS MOBIL) UNTIL ECEVIT RETURNS TO TURKEY. NEYZI IS TOTALLY CONFIDENT THAT BAYKAL WILL NOT MOVE.

15. ACCORDING TO NEYZI, THE ULTIMATUM HANDED TO THE OPERATORS IS SIMPLY AN EFFORT BY MINISTER BAYKAL TO INCREASE SUPPORT AND WIN INFLUENCE FOR HIMSELF WITHIN THE REPUBLICAN PEOPLE'S PARTY (RPP), WHERE HE HEADS A FACTION IN UNEASY ALLIANCE WITH ECEVIT SUPPORTERS. NEYZI CLAIMS THAT ALL TOP PEOPLE'S PARTY (RPP), WHERE HE HEADS A FACTION IN UNEASY ALLIANCE WITH ECEVIT SUPPORTERS. NEYZI CLAIMS THAT ALL TOP PEOPLE WITHIN THE RPP ARE AWARE OF WHAT BAYKAL IS DOING. INSTEAD OF RAISING SUPPORT FOR BAYKAL, NEYZI REPORTS, THE MOBIL AFFAIR HAS DIMINISHED IT.

16. NEYZI ALSO UNDERTOOK TO OBTAIN ECEVIT'S AGREEMENT TO MEET WITH MOBIL OFFICIALS WHILE HE WAS IN THE UNITED STATES. NEYZI REPORTED THAT ECEVIT WAS NOT ONLY WILLING BUT EAGER FOR THE MEETING. BY JUNE 2, CASANOVA HAD NOT RECEIVED CONFIRMATION THAT THE MEETING WOULD TAKE PLACE. NEYZI, ONCE MORE WITH TOTAL CONFIDENCE, ASSURED CASANOVA THAT IT WOULD TAKE PLACE.

LATE DEVELOPMENTS

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17. THE MAY 28 DEADLINE HAS COME AND GONE WITHOUT THE MINISTRY OF ENERGY CANCELLING THE REFINING PERMITS OF MOBIL OIL AND ITS PARTNERS FOR FAILURE TO OPERATE THE ATAS REFINERY AT FULL CAPACITY. ATAS WAS OPERATING AT OVER CAPACITY ON MAY 28, ACCORDING TO MARC CASANOVA, DUE SIMPLY TO THE FACT THAT THE TURKISH GOVERNMENT HAD MADE SUFFICIENT FOREIGN EXCHANGE AVAILABLE SEVERAL DAYS BEFORE TO PAY FOR ONE TANKER OF CRUDE EACH FROM BP AND MOBIL.

18. INSPECTORS FROM THE PETROLEUM ADMINISTRATION MONITORED THE OPERATION OF ATAS MAY 27-30, ATAS RECEIVED LETTER FROM PETROLEUM ADMINISTRATION DATED MAY 31, STATING THAT SINCE INSPECTION HAD SHOWN REFINERY TO HAVE BEEN OPERATING AT CAPACITY, ADMINISTRATION WOULD NOT RECOMMEND TO MINISTRY OF ENERGY THE CANCELLATION OF THE REFINERY PERMITS OF THE OPERATING COMPANIES. HOWEVER, LETTER WENT ON, ADMINISTRATION WOULD CONTINUE TO CHECK CAPACITY UTILIZATION AT ATAS AND, IF IT FOUND THIS TO BE LESS THAN FULL FOR ANY REASON OTHER THAN TECHNICAL ONES, IT WOULD CANCEL THE REFINERY CERTIFICATE WITHOUT NOTICE.

19. CASANOVA HAD CABLED THE PETROLEUM ADMINISTRATION MAY 30 THAT DUE TO A STRIKE OF WORKERS OPERATING THE PIPELINE THAT FEELS ATAS WITH TURKISH CRUDE AND DUE TO THE LACK OF ANY FURTHER FOREIGN EXCHANGE ALLOCATIONS FROM THE CENTRAL BANK, MOBIL WOULD SOON AGAIN BE UNABLE TO MAINTAIN ITS SHARE OF THE ATAS REFINERY AT CAPACITY.

20. NEYZI REMAINED SANGUINE DESPITE THE MAY 31 LETTER. HE ACKNOWLEDGED THAT THE PETROLEUM ADMINISTRATION MIGHT RECOMMEND THAT THE REFINERY CERTIFICATE BE CANCELLED, BUT HE REPEATED THAT NO ACTION WOULD BE TAKEN ON THE MATTER UNTIL THE PRIME MINISTER RETURNED TO TURKEY.

COMMENT

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21. MARC CASANOVA IS SOMEWHAT ENCOURAGED BY THESE RECENT DEVELOPMENTS BUT HE IS STILL UNCERTAIN THAT MOBIL WILL BE ABLE TO RESOLVE ITS PROBLEMS SATISFACTORILY OR THAT THE GOT WILL NOT IN THE END REVOKE THE COMPANY'S REFINING PERMIT.

22. IN THE EMBASSY'S VIEW, IT IS INCONCEIVABLE THAT TURKEY, IN NEED OF FOREIGN RESOURCES AND OF RESCHEDULING, COULD AT THIS TIME CONSIDER TAKING A NOTORIOUS ACTION AMOUNTING TO EXPROPRIATION OF THE INVESTMENT OF THREE OF THE BIGGEST OIL COMPANIES IN THE WORK.

23. OUR GROWING CONVICTION THAT THE MINISTRY OF ENERGY WAS OPERATING FROM AN EXCEEDINGLY NARROW POINT OF VIEW WHICH WAS AT ODDS WITH INTERNATIONAL EFFORTS BEING MADE BY THE FINANCE MINISTRY, PROMPTED US TO URGE CASANOVA TO TURN HIS EFFORTS TOWARD THOSE PEOPLE IN THE GOVERNMENT WHO ARE CHARGE OBTAINING FOREIGN FINANCING FOR TURKEY AND ASSURING ITS COMPLIANCE WITH IMF CONDITIONS. WE THINK CASANOVA HAS SCORED A SUCCESS IN DOING SO. THE MINISTRY OF FINANCE HAD APPARENTLY GIVEN THE MATTER LITTLE CONSIDERATION IN THE PAST.

24. THE EMBASSY IS OPTIMISTED THAT, FOR THE TIME BEING AT
LEAST, THE MINISTRY OF FINANCE WILL SUCCEED IN PREVENTING
CANCELLATION OF THE REFINERY CERTIFICATE AND NEGOTIATE
WITH MOBIL ON RESCHEDULING. BUT MOBIL WILL DEMAND AS A CONDITION
FOR THE RESCHEDULING, WHICH IT KNOWS THE FINANCE MINISTRY
MUST SETTLE BY NOVEMBER 1, SOME RELIEF FROM ALL THE OTHER
PROBLEMS THAT MADE THE COMPANY'S REFINERY OPERATIONS IN
TURKEY NOT ONLY UNPROFITABLE BUT IMPOSSIBLE.
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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM INDUSTRY, DISPUTES, JOINT VENTURES
Control Number: n/a
Copy: SINGLE
Draft Date: 06 jun 1978
Decaption Date: 20 Mar 2014
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978ANKARA04243
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780235-1099
Format: TEL
From: ANKARA
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780694/aaaadclr.tel
Line Count: 341
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: ba246e91-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: STADIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: STADIS
Reference: 78 STATE 122096
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 09 jun 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2483664
Secure: OPEN
Status: NATIVE
Subject: ENTRY OF PRIME MINISTER AND MINISTER OF FINANCE INTO MOBIL DISPUTE GIVES ENCOURAGEMENT TO COMPANY
TAGS: EFIN, EIND, ENRG, TU, US
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/ba246e91-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014